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Joint Inspection Unit

Status of the internal audit function in the United Nations system

Note by the Secretary-General

Addendum

The Secretary-General has the honour to transmit to the members of the General Assembly his comments and those of the United Nations System Chief Executives Board for Coordination on the report of the Joint Inspection Unit entitled "Status of the internal audit function in the United Nations system" (see A/72/120).

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Summary

The report of the Joint Inspection Unit entitled "Status of the internal audit function in the United Nations system" (see A/72/120) provides stakeholders with an update on the status of the internal audit function in the United Nations system organizations.

The present note reflects the views of organizations of the United Nations system on the recommendations provided in the report. The views have been consolidated on the basis of inputs provided by member organizations of the United Nations System Chief Executives Board for Coordination, which welcomed the report and supported some of its conclusions.

I. Introduction

1. The report of the Joint Inspection Unit entitled "Status of the internal audit function in the United Nations system" provides stakeholders with an update on the current status of the internal audit function in the United Nations system organizations. In the report, the Joint Inspection Unit addresses the roles, services and governance structures of internal audit functions and considers the role of audit committees and coordination with external auditors, especially where this touches on the effective functioning of internal audit bodies.

II. General comments

2. Organizations of the United Nations system welcome the report, noting that it is thorough and contains relevant and useful recommendations aimed at strengthening the internal audit function. In the report, it is indicated that, while internal audit functions could benefit from addressing the challenges highlighted, both internal and external stakeholders value the internal audit services provided. They note with satisfaction that internal audit functions are maturing and that progress to adopt and apply best practices is recognized.

3. They support the assertion in paragraph 26 of the report that "internal audit is well positioned to encourage organizations in developing and maturing their second line of defence", and generally agree with the recommendation in that paragraph, which calls for the strengthening of management oversight (the second line of defence) by means of performance and advisory engagements, particularly in the areas of results-based management, enterprise risk management and internal control frameworks. At the same time, however, it is pointed out that assurance and advisory engagements remain third-line-of-defence products even if they are intended to support management in organizational strengthening. Accordingly, such products may be subject to policies governing oversight reports, including public disclosure. The governance, follow-up and reporting arrangements should be carefully considered to ensure that appropriate assurance is provided to stakeholders.

4. Some organizations observe that several of the recommendations call for actions by governing body oversight committees with respect to the heads of oversight offices. The organizations note that, while such recommendations are clearly intended to increase the independence of the internal audit function, it is important to emphasize that the role of the oversight committee is to guide the executive head in the discharge of his or her responsibilities, with the support of the head of the oversight offices. Decisions regarding the oversight offices should therefore be made by the executive heads according to the needs of the organizations, while maintaining transparency with the governing bodies in such decisions.

5. On the issue of the length of the mandate for the head of oversight, including internal audit, some organizations note that non-renewable terms may produce undesirable effects, such as:

(a) The head of oversight focusing on further career options rather than on the organization;

(b) Attracting individuals toward the end of their professional careers;

(c) Limiting the attractiveness of the position for outside talent, such as from the private sector (as internal audit is a profession with a transferable skills set), because of the lack of a career perspective;

(d) Limiting the effectiveness of new hires, since effecting change in the internal audit function takes several years.

Some organizations suggest that a five-year mandate, renewable once, may offer the best balance for long-term focus on the needs of the organization.

6. Organizations also commented on the data included in the report, especially in annex V. One issue noted was that the data presented did not include information concerning whether stakeholders had a high or a low risk appetite and, conversely, whether they had expectations of a low or high level of assurance from the internal audit function (appetite and assurance levels are inversely proportional). The expected assurance level drives expectations from internal audit services, and, absent any indication in the data presented, there is a de facto assumption that risk appetite is identical in each organization of the United Nations system. In addition, organizations note that, although the report acknowledges the impact of geographic coverage on the effectiveness of the audit function, the data in annex V does not include any indication of each organization's geographic span (i.e., the number of countries/offices that are to be covered by the internal audit services). This masks the importance of geographic coverage and may lead to misinterpretation when governing bodies focus on audit coverage, usually in the form of an expected audit cycle of field offices by risk level. Finally, annex V does not differentiate between the type of engagements (e.g., between a compliance audit and a performance/value-for-money audit) and the manner in which they are undertaken (insourced, co-sourced or outsourced), which can lead to the conclusion that all engagements are identical throughout the United Nations system, when, in fact, they can vary considerably within and across organizations.

7. Organizations also commented in a statement by the United Nations Representatives of Internal Audit Services, which is annexed to the present note.

III. Specific comments on recommendations

Recommendation 1

Governing bodies should direct executive heads of United Nations system organizations to ensure that their heads of internal audit/oversight and oversight committee Chairs attend the meetings of the governing bodies at least annually and are given the opportunity to respond to questions raised about their respective annual reports.

8. Organizations support recommendation 1, noting that it is directed at governing bodies.

Recommendation 2

Executive heads of United Nations system organizations should involve the oversight committees and consult with the governing bodies in the hiring of the heads of internal audit/oversight and in the termination of their tenure.

9. Although organizations generally support recommendation 2, and many have procedures for involving and consulting with oversight committees and governing bodies for the positions mentioned, it was also suggested that organizations may wish to weigh the advantages and disadvantages of involving the governing body, in particular the risk of potentially politicizing the choice of a technical position.

Recommendation 3

In consultation with the executive heads and the oversight committees, the heads of internal audit/oversight of United Nations system organizations should develop, if they have not yet done so, internal audit strategies in order to provide vision and direction as to how internal audit should be strategically positioned within their organizations and operationalized to achieve their mandates, no later than December 2018, with periodic updates thereafter.

10. Organizations generally support the recommendation, with some indicating that strategies were in place, planned or under way.

Recommendation 4

Heads of internal audit/oversight of United Nations system organizations who have not yet done so should consolidate in their annual/periodic or other report findings of recurring issues emanating from individual internal audit reports that cut across various offices, units or departments so as to enable the executive heads to systematically address them.

11. Organizations support the recommendation.

Recommendation 5

Executive heads of United Nations system organizations should ensure that their internal audit services have adequate financial and human resources to expand the use of information technology auditing techniques and to employ, as appropriate, advanced data analytics and remote auditing, with a view to leveraging technology to provide more economical and comprehensive audit coverage.

12. Organizations support the recommendation. They note that there is value in leveraging technology to improve the efficiency and effectiveness of operations related to oversight.

Recommendation 6

Executive heads of United Nations system organizations, on the advice of their oversight committees, should allocate adequate financial and human resources to the internal audit services to ensure sufficient coverage of high-risk areas and adherence to established auditing cycles, as identified by the heads of internal audit/oversight during risk-based audit planning.

13. Organizations support this recommendation, although some indicated that funding constraints presented challenges.

Recommendation 7

Executive heads of United Nations system organizations that have not yet done so should ensure that their heads of internal audit/oversight continue to conduct external quality assessments of their internal audit services, in line with the Institute of Internal Auditors (IIA) Standards, at least every five years, or more frequently if a "generally conforms" grade has not been achieved, and should share the results with the governing bodies and, as appropriate, by public reporting. Those internal audit services that have not yet reached a conformity rating should ensure that it is achieved by December 2018.

14. Organizations support this recommendation.

Recommendation 8

Executive heads of United Nations system organizations that have not yet done so should provide adequate funding for professional development, as requested by the heads of internal audit/oversight, including coverage of costs for maintaining professional certification, with key performance indicators established to monitor training and certification goals for internal audit staff.

15. Organizations support the recommendation, with several indicating that full implementation is subject to the availability of funds.

Recommendation 9

Governing bodies of United Nations system organizations should ensure that the conditions for effective, independent, expert oversight committees are in place and that the committees are fully functional in line with previous Joint Inspection Unit recommendations, as reinforced in the report.

16. Noting that it is directed at governing bodies, organizations generally supported recommendation 9, although several organizations that have existing oversight committees with approved conditions and procedures, noted that the recommendation may not fully apply to them.

Annex

Statement by the United Nations Representatives of Internal Audit Services on the report of the Joint Inspection Unit entitled "Status of the internal audit function in the United Nations system"

The United Nations Representatives of Internal Audit Services (UN-RIAS) welcome the report of the Joint Inspection Unit on the status of the internal audit function, in particular the key finding that internal audit is a well-recognized and utilized function which needs to be further capitalized on by governing bodies and donors for assurance on governance, risk management and internal control processes in the United Nations system.

In the view of UN-RIAS, the report, which follows up on the 2010 Joint Inspection Unit review of the internal audit function, focuses appropriately on oversight architecture, governance, strategy, quality, reporting and oversight committees. The report sets forth in detail the work performed by the United Nations system internal audit services and recognizes the complex environment within which the UN-RIAS members operate. UN-RIAS wishes to underline the challenges faced by the internal audit function, given the diverse nature and varying geographical coverage of mandates, operations, capacities, business models, risk profiles and risk appetite across the United Nations organizations. When it comes to internal audit approaches, one size cannot therefore fit all.

The report also seeks to address the harmonization of internal audit practices and collaboration across the United Nations system and gives due credit to the work of UN-RIAS, highlighting its importance as a forum for strengthening and harmonizing the internal audit practices among the United Nations system organizations, and having done so despite resource constraints.

The report offers useful reflections on how to strengthen the role of UN-RIAS in supporting inter-agency cooperation, including through UN-RIAS interactions with the High-level Committee on Management and the United Nations Development Group, and joint auditing. Regarding the latter, the report appropriately highlights good practices and practical problems relating to the delivery, transaction costs and funding of joint audits. UN-RIAS recognizes the need not only to improve joint audit logistics but also to strengthen joint audit governance within the context of the diverse governance structures and the available capacities and resources of the United Nations system organizations.

Regarding benchmarking, since 2014, UN-RIAS has been increasingly using a yearly benchmarking survey based on the Global Audit Information Network (GAIN) of the Institute of Internal Auditors (IIA), the worldwide standard-setting body in internal audit. To address the comparability issue, UN-RIAS has been working on harmonizing the definitions/interpretation of each of the criteria that GAIN benchmarks; the final version of the definitions was adopted at the UN-RIAS meeting in September 2016 (17 UN-RIAS members participated in the 2015 GAIN survey). The results of the GAIN survey have proved to be informative and helpful. Given that comparable data already exists through the GAIN database, UN-RIAS believes that, in order to avoid duplication of efforts, future benchmarking analysis should build on the GAIN survey.

Furthermore, the report correctly recognizes that UN-RIAS has no dedicated funding and the elected Chair and Vice-Chairs fulfil their UN-RIAS role and provide administrative support in addition to their normal day-to-day roles and

responsibilities. In the same vein, the collective inputs of the membership into developing joint positions and guidance is provided in addition to regular portfolios. UN-RIAS therefore welcomes the recommendation that executive heads make funding available to individual internal audit services for participating in UN-RIAS, as this underlines the utility and importance of engaging in the network.